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United States Senate

COMMITTEE ON BANKING, HOUSING, AND
URBAN AFFAIRS

WASHINGTON, DC 20510-6075

October 17, 2007

The Honorable Henry M. Paulson
United States Department of the Treasury
1500 Pennsylvania Avenue, NW
Washington, DC 20220

Dear Secretary Paulson:

We were pleased to see your remarks yesterday in which you recognized that “we have an immediate need to see more loan modifications and refinancing and other flexibility,” and calling for a “standardized set of loss-mitigation metrics with which to evaluate servicers’ performance” in achieving these goals. This is a welcome shift from your comment last week, when you said, “The idea of across-the-board modifications is not something that this group [of large subprime servicers] is looking to do ... and it’s not something we in this administration are advocating,” (American Banker “Paulson Cool to Idea of Broad Loan Modifications,” October 12, 2007).

As you know, we are already experiencing historic rates of foreclosure, and millions of hybrid adjustable rate mortgages (ARMs), underwritten without regard to long-term affordability, will reset over the next 12 to 18 months. This will likely result in many more Americans losing their homes, unless forceful action is taken. In light of these facts, we want to reiterate our view that a flexible response by servicers, as permitted by the pooling and servicing agreements, to achieve large-scale, long-term modifications of subprime loans in order to avert massive foreclosures is what is needed in the current circumstances.

As you note, there are serious indications that the industry is moving too slowly to meet the ongoing crisis. Two recent reports highlight the lack of progress in the area of subprime loan modifications. Moody’s Investor Service surveyed servicers that cover about 80 percent of the market, and found that only one percent of re-setting subprime loans had been modified in the months studied. Those loans that had reset without modifications had delinquency rates as high as 15 percent. Moreover, the Moody’s survey found that “the majority of large servicers continue to rely on more passive” efforts to contact borrowers. A second study conducted by the California Reinvestment Coalition found that most subprime borrowers in California who are having trouble paying their mortgages are being pushed into foreclosure or short sales.

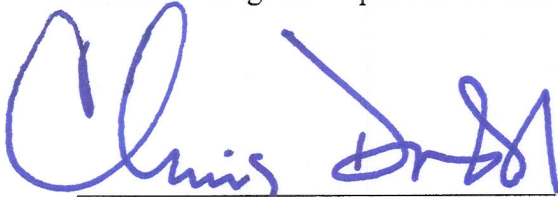
Unfortunately, as the 2006 vintage of subprime loans reset in the near future, servicers will be overwhelmed by the need to work with troubled borrowers, creating what one analyst quoted in the Financial Times (October 4, 2007) called “a subprime traffic jam” that could, without a more flexible, broad-based approach, turn into “a monumental pileup” with the result that hundreds of thousands of more homeowners lose their homes.

We also note press reports which indicate that you have been coordinating an effort to create a facility to help the banks and other financial institutions to "enhance liquidity in the short term credit markets," (Treasury Press Release, October 15). While we understand the effort to ensure the smooth operations of our capital markets, we believe at least as much energy must be expended to coordinate an effort to get subprime servicers to modify resetting subprime ARMs. We appreciate your commitment today to help lead such an effort.

Such an operation demands more than counseling; it requires working with servicers to develop a set of procedures, principles, and metrics that can be applied broadly to expedite long-term modifications on a large scale, avoid the bottlenecks that seem to be slowing the process down to date, and ensure as many Americans as possible are able to keep their homes.

Again, Mr. Secretary, we welcome your attention to this important issue and your support for this approach. We stand ready to work with you, homeowners, servicers, regulators, and others to bring such a plan to fruition.

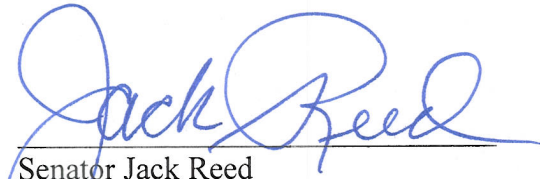
Sincerely,



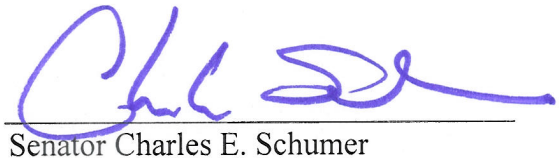
Chairman Christopher J. Dodd



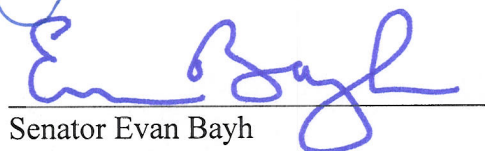
Senator Tim Johnson



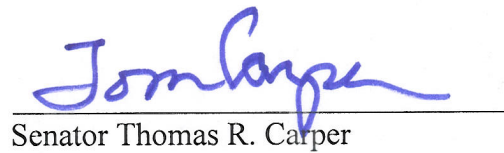
Senator Jack Reed



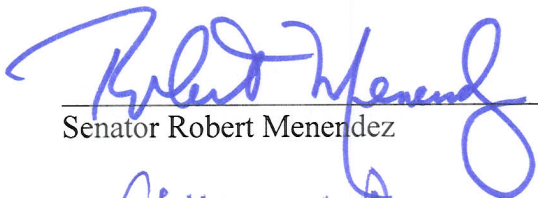
Senator Charles E. Schumer



Senator Evan Bayh



Senator Thomas R. Carper



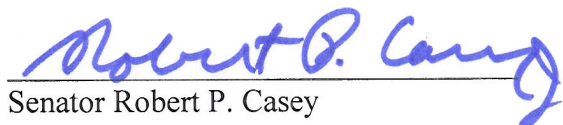
Senator Robert Menendez



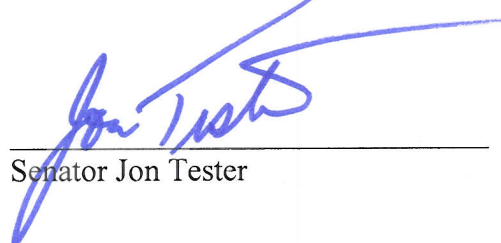
Senator Daniel Akaka



Senator Sherrod Brown



Senator Robert P. Casey



Senator Jon Tester